Corbett Road

# In The Media

## Traders Punish Schwab, TD, eTrade for Move Away from Commissions

The market sees Schwab's announcement of commission-free trading as a direct hit to revenues.

— By Jeff Benjamin | October 1, 2019

While investors and financial advisers using the Charles Schwab brokerage platform might be celebrating Tuesday's announcement of commission-free trading, the stock market had a different take on the news.

Schwab, which expects to lose about $100 million in revenue each quarter as a result of its offer of free trading in U.S. stocks, ETFs and options starting next Monday, saw its share price fall more than 9% on the news.

Some market watchers saw the price decline as an overreaction and a failure to consider Schwab's longer-term strategy of shifting more business to fee-based platforms.

"Every time commissions get cut, there's a similar reaction, and each time the reaction is proportionate to the impact on commission revenues," said Cathy Seifert, equity analyst at CFRA.

Schwab's chief financial officer Peter Crawford said in a statement that commissions represent less than 4% of the company's total net revenue.

That detail helps explain why Schwab's latest fee cut punished its stock price less than the stock prices of its competitors, TD Ameritrade Holdings and ETrade Financial Corp., both of which are expected to follow suit on commission-free trading.

ETrade, which derives about 18% of its revenues from commissions, saw its stock price fall more than 17% on the Schwab announcement.

Meanwhile, TD, which receives 25% of its revenues in the form of commissions, saw its share price fall by nearly 24%.

"Schwab is still seen as a discount broker, but with more than 60% of revenues being fee-based, they're moving away from being a stock jockey," Ms. Seifert said. "ETrade and TD will be forced to counter the commission-free trades."

Josh Brown, financial adviser and chief executive of Ritholtz Wealth Management, also felt the market overreacted to the news of free trades at Schwab.

“Keep in mind, this is happening in the context of the Dow being down 1%, as well as some bad economic news, so you really wouldn’t expect banks and brokerage stocks to be doing well, anyway,” he said.

Even though Mr. Brown expects Schwab’s move to force a response by competitors “by the end of the year,” he also thinks anyone paying attention should have seen the move coming.

“It’s not like this is the moon landing; Schwab and TD already have some commission-free platforms,” he said. “There are already over 200 funds on TD’s no-transaction-fee platform, including every index you can imagine.”

Mr. Brown acknowledged that “people were shocked” by the Schwab announcement and said the company’s shift to commission-free trades introduces a new level of pressure, especially for upstarts like Robinhood Markets, a trading app that has been attracting private funding and has more than 4 million accounts.

“Robinhood’s whole bread and butter is zero-fee trades,” Mr. Brown said. “It’s hard to imagine them trying to raise money today, because what are they doing now that Schwab isn’t?”

Jack Randall, a spokesman for Robinhood, said that “the changes taking place across the brokerage industry reflect a focus on the customer that’s been inherent to Robinhood since the beginning.

“We remain focused on offering intuitively designed products that reduce barriers to our financial system, including account minimums and commission fees,” Mr. Randall said.

Matthew Gaffey, senior wealth manager at Corbett Road Wealth Management, said Schwab’s move is just the latest reminder of the size and presence of the largest financial services firms in the country.

“It’s not that some of the smaller firms aren’t getting market share, but in no way are they a direct threat to companies like Schwab and Fidelity,” Mr. Gaffey said. “These companies have been able to position themselves in the marketplace year over year because they have been able to change and adapt to clients.”

---